LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7263 | **NOTE PREPARED:** Jan 26, 2011
BILL NUMBER: HB 1411 | **BILL AMENDED:**

SUBJECT: Early Retirement for State Employees.

FIRST AUTHOR: Rep. Goodin | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___**GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill establishes the State Employee Early Retirement Program. The bill provides that a state employee in the executive branch of state government who: (1) is at least 55 years of age; and (2) has at least 10 years of service; may elect, before July 1, 2012, to participate in the program. The bill also provides that a state employee who elects to participate in the program must separate from state service within 30 days.

The bill provides that a state employee who elects to participate in the program shall receive a lump sum payment equal to one-half of the state employee's annual salary and is entitled to certain benefits from a state employee early retirement medical benefits account. The bill establishes the account. It also establishes the State Employee Early Retirement Health Benefit Trust Fund to fund the account. It designates the Budget Agency as the account administrator.

The bill requires a state agency to make annual contributions of $7,000 for a period of five years for an employee who elects to participate in the program. The bill also allows the surviving spouse or dependent of a participant to receive a benefit from the account. It provides that the account may be used by a participant to pay certain medical and dental expenses that are not paid by the retirement medical benefits account.

This bill provides that members of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) that elect to participate in the program may receive a normal retirement benefit. The bill also provides that a member of the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan that elects to participate in the program may receive an unreduced retirement benefit. Provides that a participant in the plan who enters the deferred retirement option program (DROP) who subsequently enters the program is not entitled to a DROP benefit. It also provides that a beneficiary employee of the State Police 1987 Benefit System who elects to enter the program is entitled to a full basic pension benefit.

Effective Date: Upon passage; July 1, 2011.

Explanation of State Expenditures: *Summary-* This bill establishes the State Employee Early Retirement Program, an early retirement option for state executive branch employees. The program includes a lump sum cash payment based on 50% of the employee's salary, $35,000 that may be used for medical expense reimbursement, as well as immediate normal, unreduced pension benefits from PERF, TRF, the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EP-GA-CO Plan), and the State Police 1987 Benefit System. Eligibility is limited to those employees who are at least age 55 with 10 years of creditable service and who retire between July 1, 2011, and June 30, 2012 (i.e., during SFY 2012).

The net additional cash expenditures to state agencies are estimated to range from approximate breakeven to additional expenditures of $41 M, with these amounts distributed beginning in FY 2012 and extending into FY 2017. [The $41 M in additional costs represent a scenario where no additional retirements would occur other than the normal rate of annual retirements. The breakeven impact assumes that all 5,600 executive branch employees who will be age 55 with 10 years of service by the end of 2012 will retire. The amount of incentive for early retirement that this program will provide is not known. The actual impact will likely fall somewhere within the estimated range.]

In addition, the bill's early retirement provisions will increase the unfunded liabilities and funding requirements of the PERF, TRF, the State Police 1987 Benefit System, and the EP-GA-CO Plan. These costs are ultimately paid by the agency employers. The impacts on the state and the pension funds could be significant, but an actuarial estimate is not available at this time.

There could also be some marginal reduction in claims experience for the state employee health benefit plan, depending on the number of retiring employees who choose to remain on the state employee plan after retirement.

Personnel expenditures for state employees average 55% from the state General Fund and 45% from dedicated funds.

Additional Details-

State Employee Early Retirement (SEER) Program: The SEER Program is established as an early retirement option for state executive branch employees who choose to retire during FY 2012 and who are at least age 55 with 10 years of creditable service. (Judicial and legislative branch employees are excluded from participation.)

The program has three components: (1) A $7,000 annual payment for five years is to be paid by the state agency employer to the SEER Health Benefit Trust Fund, which is composed of individual member subaccounts. The contributions and associated earnings in a participant's subaccount can be used by the participant (and spouse and dependent upon the death of the participant) for certain medical and dental expenses. Any unused funds are to be forfeited back to the Trust Fund.

(2) Upon the retirement of the participant, the state agency employer is to pay 50% of the employee's salary in a lump sum payment. These funds can be used by the participant for any purpose.

(3) The participant also becomes immediately eligible for normal, unreduced pension benefits. [Current statute provides for normal, unreduced pension benefits if the member retires (a) after age 65 with 10 years creditable service; (b) after age 60 with 15 years of creditable service; or (c) after the member's age plus years of service is at least 85 and the member is at least age 55. In addition, a member is eligible for reduced retirement benefits at age 50 with 15 years of creditable service.]

The amount of incentive to retire early that might be provided by the SEER program is unknown. Additional cash expenditures to the state of $41 M is estimated to occur if the financial incentives of this program result in no additional retirements beyond what would have occurred anyway. A preliminary estimate of the annual number of individuals who retire each year regardless of any incentive provided by the bill is 700. These individuals would be eligible for the 5-year, $7,000 annual payment and the 50%-of-salary lump sum payment, even though they would have entered normal retirement without the program incentives.

On the other hand, the estimated number of state employees who will be at least age 55 with 10 years of creditable service by June 30, 2012, and thus eligible for early retirement under the program is about 5,600. (The number of potential eligible employees may be underestimated since the creditable service is only for state service and does not reflect service that might have been earned in other PERF-covered positions.) If all of these individuals took the early retirement opportunity provided in the bill, they would be eligible for the 5-year, $7,000 annual payment and the 50%-of-salary lump sum payment. This would result in additional expenditures of about $328 M, of which $150 M is estimated to occur in FY 2012, $61 M could occur in FY 2013, and $39 M in each of FY 2014 through FY 2016.

However, for the percentage of these 5,600 individuals who would retire only because of the financial incentives provided in the program, the retiring employees would presumably be replaced by new employees at somewhat lower salaries. The average salary for the eligible retiring group is approximately $47,125, while the average entry level salary is $32,700. Although the retiring employees would not be able to all be replaced by entry level workers, if about 75% of the salary differential could be saved, then the net impact is approximately breakeven over the five-year period.

In addition to the costs of the SEER Program described above, there would also be potentially significant costs associated with additional unfunded pension fund liabilities and annual funding requirements resulting from the immediate granting of normal, unreduced pension benefits. These costs are currently undetermined, but are ultimately borne by the state agency employers.

There could also be some marginal reduction in claims experience for the state employee health benefit plan, depending on the number of retiring employees who choose to leave or to remain on the state employee plan. The greater the number of retiring employees along with spouses who leave the state employee health plan and are replaced by younger, healthier employees, the lower the average claims experience of the state employee health plan. To the extent that the retiring employees remain on the state health plan, the reduction in the average claims experience would likely be much less.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: State Auditor.

Fiscal Analyst: Alan Gossard, 317-233-3546.